

FUTURE EUROPEAN STRUCTURAL FUNDS PROGRAMMES IN LOWLANDS & UPLANDS SCOTLAND 2007-2013 RESPONSE TO SCOTTISH EXECUTIVE CONSULTATION FROM EAST LOTHIAN COUNCIL

Background

East Lothian Council is a local authority comprising a range of urban and rural communities stretching from the east of Edinburgh to the Scottish Borders. It has a total population of over 90,000 and growing. The county has benefited from European Structural Funds support since 1997 under the East of Scotland Objective 2 programme and the Lowland Scotland Objective 3 programme and has several projects ongoing under both ESF and ERDF. Funding from the Interreg North Sea Programme and the Tyne/Esk Leader+ Programme have also been accessed although not the subject of this consultation.

Whilst employment levels are generally high in East Lothian, there are pockets of deprivation with three data zones falling within the worst 20% of the Scottish Index of Multiple Deprivation (one within the worst 15%).

East Lothian has over 2000 businesses, 97% are micro enterprises, with a start-up target rate of 150 per year through the Business Gateway alone.

Question 1: Are there any additional socio-economic factors to be considered - and which Structural Funds can address - in assessing the strengths, weaknesses and opportunities of Lowlands & Uplands Scotland?

The socio-economic sections of the Draft Operational Programme are comprehensive with nothing obvious to be added. The analysis of the socio-economic factors also seems reasonable with low GVA and low skill levels mentioned as the key problems. The identification of specific hard to reach and excluded groups is one we would support although in practice we have concerns about the exclusive targeting using SIMD data zones, especially in areas such as East Lothian with dispersed population and services.

In relation to the business development factors, the barriers identified suggest that the main weakness is in business start-up numbers. The market failure in establishing new enterprises suggests that the critical focus should be on the pre-start up stage with ERDF helping through events and support. This is reasonable but with the focus on supporting high-growth enterprises dealing above the £2m mark, with emphasis on sectors such as pharmaceutical products, precision instruments, computing, electronic equipment and biotechnology it is hard for smaller but economically important sectors to be developed, for example tourism, Food and Drink, Life Sciences as well as the smaller scale end of the electronics and creative industries. These have been important to the East Lothian economy.

In relation to RTD, the costs and risks involved for entrepreneurs are identified as the main barrier with ERDF adding value in the post RTD stages to help with the commercial process and developing networks. This is acceptable as long as this can be interpreted to cover a broad size of organisation and not limited to the large bio-tech industries, for example.

Question 2: Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands & Uplands Scotland address the strengths, weaknesses and opportunities of the region?

Following on from question1, there is a broad identification of key and priority sectors and we believe that it is important the key industries have access to sufficient funds within the priorities, in particular within rural economies many of the key industries are vital to local employment and economic development, especially tourism, food and drink, life sciences as well as the smaller scale end of the electronics and creative industries.

- **Priority 1 Enterprise Growth** - This is the main priority to focus on high growth enterprises and start-ups as well as a strong focus on RTD. To achieve this the spend will be split between a challenge fund element and a proportion going to Scottish Enterprise to run strategic programmes. We are concerned about what this will mean in practice. It appears that 50% of the funding will go to Scottish Enterprise but is no indication on whether all LEC's within the LUPS area will receive an allocation. This could see up to £60m going to Scottish Enterprise over the programme so some clarity would be welcome on how this will be allocated within that organisation.
- **Priority 2 Community Regeneration** - The focus is on areas with 'entrenched deprivation' in particular the SIMD areas in the worst 15% can cause problems to areas such as East Lothian where there would be one data zone, in Prestonpans, with a further two in the worst 20%. From East Lothian's perspective a strict use of SIMD data zones is not helpful in developing projects. In line with our Community Planning structure and local Regeneration Outcome Agreement (ROA) we would suggest that the issues correctly identified as holding back certain areas can only be addressed in the wider local context. Whilst identifying and targeting beneficiaries in a datazone should be an important factor, it is often difficult to target projects support on such a small area. Many of the problems identified are similar in other urban and ex coalfield areas of East Lothian but the level of deprivation does not register in the SIMD figures.

We are concerned that the Community Regeneration (Urban) and Rural Development priorities are not clearly defined in terms of areas. In an area like East Lothian there is a fine line between the rural and urban areas. The urban areas of Musselburgh, Tranent, Prestonpans and surrounding villages are also recognised as ex-coalfield areas of the county. This definition of urban and rural is covered in more detail in the next section but is an important one for Priority 2 to clarify.

- **Priority 3 Rural Development** - The main focus of this priority is to address issues of declining population, ageing, transport, access to higher and further education, out migration and over reliance on key low paid sectors (agriculture and forestry).

East Lothian has a broad mix of communities from the Urban to various levels of rural classification as detailed below, with over 50% of the population living in small towns. This raises an issue that is applicable to both Priority 2 and Priority 3. Where do the non-urban or non-rural areas fit? Using the Scottish Executive's classification (see table 1) 47.7% of East Lothian is defined as either Accessible Small Towns or Remote Small towns, with 27.8% being defined under the rural classification, the seventh ranked council in the LUPS area, in terms of the ratio of rural areas. Therefore, the majority of these communities are in the 3000 to 10,000 population category (see table 2). There is a need for clarity as to how these communities fit in with the priority, if indeed they do. The larger towns are vital to the wider rural community in that they act as powerful economic hubs in their own right, similar in many ways to the city region concept.

Table 1: Scottish Executive 6-Fold Urban Rural Classification by Local Authority

Local Authority	6-Fold Urban Rural Classification					
	Large Urban Areas	Other Urban Areas	Accessible Small Towns	Remote Small Towns	Accessible Rural	Remote Rural
East Lothian	24.5	0.0	33.7	14.0	15.5	12.3

Table 2: East Lothian Population based on Settlements (Census 2001)

East Lothian	90,088
Aberlady	873
Cockenzie	5,499
Dunbar	6,354
East Linton	1,744
Elphinstone	514
Gifford	668
Gullane	2,172
Haddington	8,851
Longniddry	2,613
Macmerry	1,113
Musselburgh	22,112
North Berwick	6,223
Ormiston	2,079
Pencaitland	1,566
Prestonpans	7,153
Tranent	8,892

West Barns	555
Whitecraig	1,278

The role for ERDF complements policy by supporting start-up and diversification and targeted investment that can make a difference. We welcome that tourism, food and drink, etc are highlighted as important sectors for rural areas. However, the draft seems tentative about the limits on supporting this sector and we would like to see specific aid strengthened. In the case of East Lothian the sectors mentioned above are key and it is important that local communities identify the strengths and weaknesses in their areas and that suitable support is driven from this perspective. SME activity in rural areas tends to be small scale and that support should focus on support for these business and their needs.

We welcome the important role of higher and further education for rural areas. In areas such as East Lothian there would be an opportunity to work closely between priorities. For example, an educational training based projects could be more effective if allowed to run over the whole of the county taking in the urban and rural areas. This flexible approach would make projects more holistic and cost effective.

In the previous ERDF programme some rural areas were covered within the scope of Community Economic Development. This does not appear to feature in the Rural priority. It may be that this will be addressed through other funding, the most obvious being a future Leader+ programme. We would seek clarity on this but on there is a need for certain rural areas to be able to address Community Economic Development issues. This could be a specific issue for those semi-urban, semi-rural areas. In East Lothian's case this would broadly mean the ex-coalfield areas.

The main problem is the split between of the priority funding between the Scottish Borders and Dumfries and Galloway ('allocated on a commissioning basis') and the challenge fund element. We would need to know the amounts but it would appear that most funding will be available for challenge funding. This would seem to be proposing a two or three layered structure for allocation of the Rural monies:

1. A portion for Scottish Borders and Dumfries and Galloway.
2. A portion for geographically targeted areas
3. Challenge Fund

This raises a number of questions. Firstly, if money is ring fenced for the Scottish Borders and Dumfries and Galloway will that preclude the area from applying for challenge funding and other potentially targeted monies? On what is a fairly limited amount of funding it would be unfair if they were eligible to apply for additional monies. There is also the more basic question of how and why Scottish Borders and Dumfries and Galloway were chosen to receive this money. There does not

appear to have been a transparent process. Were other areas even considered or given the opportunity? Some clarification on this process would be welcome.

A second and related issue would be if the Scottish Borders and Dumfries and Galloway have access to money for larger more region wide strategic projects it would potentially give them the edge in applications for challenge funding, as they will be well placed to relate smaller challenge funded applications with the larger strategic spends.

If there are to be other geographically targeted areas, we need to know what is envisaged. Is it that some monies will be earmarked in a similar way to the Scottish Borders and Dumfries and Galloway? If so, this would further erode the availability of challenge funding and make it more important that the available challenge funding is earmarked for those areas not covered spatially.

Question 3: Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands & Uplands Scotland show appropriate coherence and concentration?

As stated above, the main concern is that the funding is too concentrated. There should be a requirement for flexibility to allow areas to address their needs as at present the focus is on large-scale support to key sector industries, for example bio-technology. This is an important sector but it is not the only one. Similarly, the use of SIMD could be as much a barrier as an aid in targeting those most in need with suitable projects. Finally the concentration on certain rural areas over other should not result in technically eligible projects in other rural areas losing out.

Question 4: Do the proposed priorities for the 2007-2013 ESF programme in Lowlands & Uplands Scotland address the strengths, weaknesses and opportunities of the region?

In general the priorities seem comprehensive, covering all the main employment and skills development areas. The main concerns relate to the way monies would be allocated.

- **Priority 1 Progressing into Employment** - As noted elsewhere, the focus on the use of urban SIMD areas only for Priority 1 does make it difficult for areas, such as East Lothian, to address the issues in a very restricted number of data zones (one in the bottom 15% and three in the bottom 20%). If we are to deal with the issues, projects need to have flexibility to address the issue in the most effective way.

Priority 1 will also be delivered jointly with ERDF Priority 2 that will involve a key role for the Community Planning and Regeneration Outcome Agreements, which we would welcome. However, with the

confusion over allocations and targeted pilot areas, we are concerned that an innovative small local authority such as East Lothian would not be utilised.

- **Priority 2 Progressing through Employment** - In targeting the skills gap and career progression we welcome the recognition of the role social enterprises can play. In East Lothian the East Lothian Social Economy Partnership (ELSEP) is well placed and recognised to support this sector. Most areas are covered and whilst migrant workers are mentioned it is likely that this group will continue to grow and will be the hardest to qualify numerically. There is little doubt of the economic importance of this group and one that, due to the uncertainty, will require a flexible approach over the duration of the programme, in particular for local authorities.
- **Priority 3 Access to Lifelong Learning** - We would emphasise the role of working in rural areas and as previously stated the potential to work jointly across both urban and rural areas. A current ESF funded project, the East Lothian Learning Partnership, has been particularly successful over a number of years and is a particularly useful template for learning support in East Lothian, one that has great potential to take on both urban and rural support.

Question 5: Do the proposed priorities for the 2007-2013 ESF programme in Lowlands & Uplands Scotland show appropriate coherence and concentration?

This seems reasonable but as stated elsewhere we have concerns about the most effective way of getting the money both to where it is needed and where it will have the most effect. Flexibility in approach will help.

Question 6: What are your views on the proposed balance of funding between priorities for the future ERDF programme in Lowlands & Uplands Scotland?

The Scottish Executive estimates that £380 to £430 million will be made available to Scotland for 2007 to 2013. ERDF will get £220 to £250 million and ESF £160 to £180. This would be approximately 58% of the overall fund. We welcome the additional weighting given to ERDF.

In relation to the ERDF Priorities split:

- Enterprise Growth 48% = £105.6M to £120M
- Community Regeneration 29% = £63.8M to £72.5
- Rural Development 23% = £50.6M to £57.5M

The balance of funding between the priorities is not in itself problematic but it is the lack of clarity on the proposed balance within each priority that is the biggest concern.

It seems that the focus of Priority 1 will target bigger projects so the balance here is understandable; we note the demands made by the Lisbon Agenda. However, the main problem on which to comment is that within each priority there will be a percentage earmarked for Scottish Enterprise, pilot Community Planning Partnerships and Scottish Borders and Dumfries and Galloway. Therefore, for areas such as East Lothian we would not want to be overlooked in practice. It would appear that where specific money is allocated the remaining challenge fund element should see those areas not covered given preference, if not priority. This would ensure an even spread across the LUPS area. Scottish Enterprise may be an exception where they are partners in local partnership applications through the challenge fund. However, this should be where they are clearly a partner and not the lead applicant.

Question 7: What are your views on the proposed balance of funding between priorities for the future ESF programme in Lowlands & Uplands Scotland?

The ESF Priorities would be as follows:

- Progressing into Employment 43% = £68.8M to £77.4M
- Progressing through Employment 35% = £56M to £63M
- Access to Lifelong Learning 22% = £35.2M to £39.6M

Again we do not have any great problem with the allocation split itself but are concerned about the potential effect of the matching of these priorities with specific ERDF streams. Given the close relationship between ERDF Priority 1 and ESF Priority 2 and ERDF Priority 2 and ESF Priority 1 there does seem that Priority 3 Access to Lifelong learning sits somewhat uneasily on its own, almost linked to ERDF Priority 3 by default. There may be some merit in this priority being part of ESF 1 and 2 rather than a separate priority. However, it would need to be done on the basis that ERDF priority 3 was covered in terms of the ESF programme.

As with the funding overall there is fairly limited money available on an annual basis so we would seek clarity on what the intention is regarding annual calls as has been the case in the current programme. If the intention is not to have annual calls on the basis of limited funding then we would note that match funding could be a problem, or at least getting commitment if calls are only every 3 years or so.

Question 8: Do the proposed priorities outlined in the draft Operational Programmes focus sufficiently on the right priorities in Scottish domestic policy?

The draft does provide comprehensive coverage of domestic policy and is certainly sufficient. The question is whether the focus is too closely aligned with domestic policy to allow for sufficient additionality from a European perspective. There are attempts to identify the ERDF and ESF eligible elements but this often seems muddled and limited in outcome.

Question 9: What are your views on how the principle of environmental sustainability has been integrated into the Operational Programmes?

We have nothing specific to add as the analysis of the environmental issues seems comprehensive.

Question 10: What are your views on how the principle of equal opportunities has been integrated into the Operational Programmes?

As with question 9, this seems reasonably well covered.

Question 11: What are your views on how the Operational Programmes will ensure complementarity between Structural Funds and other EU funding streams?

It is difficult to be precise as other EU programmes are at a similar stage in development for the 2007 to 2013 programmes. From East Lothian's perspective, the key complementary streams are likely to be the Territorial Cooperation programme, in particular the North Sea Programme, and a future Leader+ programme. Therefore, complementarity is likely to be with the Rural priorities under ERDF.

Question 12: How can the challenge-fund approach be improved to make it more effective in delivering outcomes and more efficient in operation?

Obviously it is hard to be specific until the figures are clarified, although we know that in ERDF Priorities 1 and 2 around 50% will be pre allocated. The consultation document states that this element will remain a 'significant proportion' and the 'the bulk of programme resources.'

It will also 'involve a more strategic focus and potentially support for fewer, larger, innovative projects that demonstrate clear added value to domestic policy.' Whilst we welcome the strategic focus, until it is clarified further, we are uneasy with regards to the focus on 'larger, innovative projects' not with the innovative element but we would seek clarification on what 'larger' would mean in practice. If this targets only the large biotech industries, for example, then we would hope that there enough scope to allow smaller scale support as well.

This point is re-emphasised in the statement that there 'may also be advantages in setting a minimum size for projects,' especially in ESF. Projects should be viewed on their merits and ability to deliver rather than the size. Areas where deprivation may be low should still have the opportunity to deliver projects of an appropriate scale. The beneficiary number may be small but their needs should not be overlooked due to a quirk of geography.

Also, as detailed elsewhere, there seems merit in ring fencing the challenge fund element for those areas not covered by specific spatial targeting to allow a good spread of projects across the LUPS area.

Question 13: What would be the most effective approach to using Community Planning Partnerships and other local partnerships for the delivery of elements of the programmes?

In terms of Community Planning Partnerships we would support their role as a key strategic body locally with a role in delivery. However, we understand the money targeted here, around 50% of the budget, will go to 'limited' pilot projects. These are to be evaluated at the mid-term point to decide on whether this approach had been successful, with other pilots added if appropriate. This would mean that there is a limited amount of money available, possibly around £35M, through challenge funding, although this will be less should the pilot evaluation be extended. As above we would be concerned that pilot areas would be eligible for the challenge fund element as well, so would like to see this element targeted specifically at those areas, with their own problems, not covered by the pilot projects to allow for broad geographical coverage.

Question 14: What are your views on spatial targeting for community regeneration under ERDF Priority 2 and ESF Priority 1?

Targeting Community Regeneration and Progressing into Employment Priorities through spatially targeted local partnerships and integrated action plans, for 'maximum impact,' is sensible. However, we would emphasise that areas in the grey zone between urban and rural are not disadvantaged and that the most suitable local approach is utilised to ensure that problems can be addressed properly. This requires a flexible approach to isolated SIMD zones and ex-coalfield areas.

Question 15: What are your views on spatial targeting for rural development under ERDF Priority 3?

The spatial targeting may have sound reasoning but again we emphasise that smaller rural areas should not lose out by default. They have similar problems and need to be able to address these. This is covered more fully above.

Question 16: Do you have any additional comments on the draft Structural Funds Operational Programmes for Lowlands & Uplands Scotland?

In emphasising the points above we would only want to state that there is a clumsiness in the structure of the ERDF programme with the geographical

targeting of Priorities 2 and 3. To work effectively there needs to be a flexibility to allow recognition of where urban and rural areas start to merge without missing out on support, in particular clarity where the small towns fit in, those communities of between 3,000 and 10,000.

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